



News Release

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IRS LETS MORE SMALL BUSINESSES USE CASH METHOD OF ACCOUNTING

WASHINGTON – The Internal Revenue Service and Treasury Department will allow certain small businesses with gross receipts up \$10 million or less to use the cash method of accounting for their income and expenses.

Previously, it was unclear whether these businesses were required to use inventories and an accrual method of accounting. In 2000, the IRS and Treasury issued guidance generally allowing businesses with gross receipts of \$1 million or less to use the cash method. In addition, in 2001, the IRS stopped raising this issue on audit for taxpayers with gross receipts over \$1 million and placed a moratorium on pending litigation.

“This is another way in which we’re making it easier for small business owners to comply with the tax laws, so that they can spend more time being successful in their businesses,” said IRS Commissioner Charles O. Rossotti. “We estimate that more than 500,000 businesses may take advantage of this relief.”

The IRS released Notice 2001-76 containing details of the proposed rules and asking for comments before they are formally issued. In the meantime, taxpayers may rely on the proposed rules as early as the 2001 tax year.

Generally, under the cash method, a business reports income and deducts expenses when the related payments occur. Under an accrual method, a business generally reports income when it has a right to receive payment and deducts expenses when it has a fixed and determinable liability for them.

The proposed rules should be beneficial for service businesses that also sell related products, such as a plumber who also sells plumbing supplies. The new rules generally exclude manufacturers, wholesalers, retailers, miners, certain publishers, and sound recorders unless they are principally a service business or perform certain kinds of custom manufacturing.

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The proposed rules do not apply to certain businesses that the tax law requires to use an accrual method. For example, corporations, and partnerships with corporate partners, generally must use an accrual method if their gross receipts are more than \$5 million.

Notice 2001-76 will be published in Internal Revenue Bulletin 2001-52, dated December 26, 2001. It will also be available through the IRS Web site at www.irs.gov. Taxpayers may submit comments by March 1, 2002, via mail or e-mail to the addresses listed in the Notice.

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